Annual Report
O$_2$ Slovakia, s.r.o.

Content

O_2 Czech Republic a.s.

O_2 Czech Republic a.s.

The O_2 Czech Republic Group consists of O_2 Czech Republic a.s. (O2 CR) and several other subsidiaries. The ownership rights of O_2 CR in the subsidiaries are exercised by the company's Board of Directors. O_2 CR is the largest integrated provider of telecommunication services in the Czech market. Currently, it operates nearly eight million mobile and fixed lines, which makes it one of the leading providers of fully convergent services in Europe. O_2 CR offers its mobile customers in Czech Republic the latest technologies such as HSPA+ and LTE. During the years 2012 and 2013, O_2 CR brought a fundamental change to the Czech telecommunication market, when for example it was the first operator in Czech Republic to enable virtual operators to access its network. In spring 2013, O_2 CR also introduced the revolutionary unlimited FREE postpaid plans.

O_2 CR disposes of the most compact offer of voice and data services in the Czech Republic, while paying extraordinary attention to utilization of the growth potential mainly in the area of ICT. With its data centres of total area of 7,300 square meters, O_2 CR counts among the biggest players in the area of hosting and cloud services as well as in the area of managed services. These data centres are the only ones in Czech Republic and Central Europe that obtained the TIER III level certification. The service O_2 TV makes O_2 an operator of simultaneously the largest operator of online TV broadcasting in the Czech Republic.

O_2 Slovakia, s.r.o.

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O2 launched its commercial operation on 02/02/2007. The company obtained the licence based on the decision of the tender committee of the Telecommunication Authority of Slovak Republic dated 25/08/2006. In Slovakia, O_2 is the fastest growing mobile operator. From the beginning of its operation, it has been bringing revolutionary solutions, open communication and fairness for all customers alike. With its simple product portfolio it has been systematically changing the rules of mobile communication. O_2 was the first operator in Slovakia to bring a truly unlimited calling and texting plan; it was the first to launch the commercial testing operation of the LTE network or to offer payments by mobile via the NFC technology. O_2 has been constantly enjoying the highest customer satisfaction among all operators. It is an 8 times consecutive winner of the title Operator of the Year awarded by an independent customer opinion poll. In 2013, 2014 and 2015 the operator was also announced the best employer among large companies in an independent survey by Aon Hewitt.

Fairness, Simplicity and Transparency

The main principles of mobile telephony in O_2 are fairness, simplicity and transparency. Fairness brought a cancellation of compulsory monthly fees in postpaid services, so customers pay always only for what they actually use.

Transparency and simplicity mean equal prices for calls during the day and night, work days and also weekends, to telephone numbers in all networks in Slovak Republic as well as calls from Slovak Republic and Czech Republic to all European Union countries at local prices.

No commitment – the plans and services for all O_2 customers are without any commitment. The O_2 products are attractive and the operator has no need to condition its convenient calls by any commitment.

Equal Benefits for All

Equal benefits for all regardless of whether they recharge their credit or pay for the services used via an invoice, but also regardless of whether they have been with O_2 for a longer period of time or they are new customers.

Changing the Rules of Mobile Communication in Slovakia

By introducing the O_2 Fér offer for residential customers in September 2008, O_2 fundamentally changed the rules of mobile communication in Slovakia. The benefits of the O_2 Fér plan lie mainly in the non-committed services, transparent price list and unified price for calls and SMS text messages.

O_2 brought the customers a unique possibility to use calls, SMS / MMS messages or data in the Czech Republic at identical prices as in Slovakia.

The company also contributed to launching of the automatic number portability among all three operators as well as to a significant reduction of the period for number porting to the network of the other telecommunication operator from the prehistoric 25 to the current 4 working days.

O_2's Continuously Growing Customer Base

At the end of 2016, the customer base of O_2 reached already 1.892 million active customers. In the monitored period, the ratio of postpaid customers grew already to nearly 57 %. O_2 showed that a fair, innovative and transparent approach and attractive proposition are precisely what the customers expect of their operator.

2016 Marked by Fast Data

O_2 continues expanding its fast networks. Last year, O_2 focused predominantly on expanding its coverage by the fastest 4G LTE network. Even back in 2010, O_2 was the first to run a successful test of the 4G network in Slovakia and in August 2012 it launched the first pilot commercial operation of the 4G network in Slovakia. Towards the end of last year, O_2 expanded its 4G coverage to 70 % of the Slovak Republic's population by covering bigger towns and their adjacent areas, including the segments of speedways and motorways. According to the published plans, by the end of 2017, the coverage by own 4G network should reach as much as 80 % of the Slovak Republic's population.

Partner Solutions

O2 Slovakia, s.r.o. has decided to cooperate in the area of partner solutions, by means of which mobile services are provided.

Tesco Mobile is a partner product of TESCO STORES SR and O2 Slovakia. The sale is performed in the Tesco's sales network and the reliability of services provided is ensured by the use of the O2 Slovakia network.

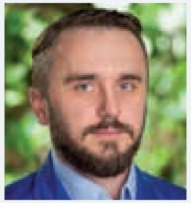
Tesco Mobile was introduced to the tele-communication market in December 2009, when it followed the successful operation in the United Kingdom of Great Britain and Northern Ireland and in Ireland. Currently, it operates also in the Czech Republic and South Korea. In Slovakia, Tesco Mobile is primarily concentrated on provision of prepaid services.

Company Management

Company Management

Peter Gažík
Chief Executive Officer of O$_2$ Slovakia

He was engaged in O$_2$ in the position of a Public Affairs Director during the period 2011 – 2014 and subsequently he cooperated with O$_2$ as a consultant in the field of regulatory affairs, being responsible for relations with partner, state institutions and the regulator. In this period, he was simultaneously dedicated to start ups and support of innovative projects in Neulogy as a Business Development and Innovations Director. Peter Gažík studied linguistics and political science at the Comenius University in Bratislava as well as at the London School of Economics. On 1 June 2015, he became the Chief Executive Officer of O$_2$ Slovakia, s.r.o..

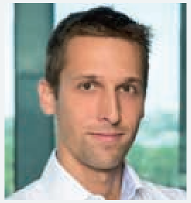


Martin Klímek
Chief Financial Officer

Martin Klímek has acted as the Chief Financial Officer since 1 May 2012. Previously, he held the position of the Planning and Controlling Director in Telefónica Czech Republic. He joined Telefónica CZ (Eurotel Prague at that time) in as early as 2002 and gradually held the positions of a Financial Reporting Manager and Director of Controlling for Residential Segment. Before, he worked for 4 years in PriceWaterhouseCoopers in Prague where Eurotel Prague was one of his accounts.

Radek Štěrba
Sales and Customer Service Director

Radek Štěrba has extensive experience in sales and customer care directly in the telecommunication business. He joined O$_2$ Slovakia from Czech Republic where he had worked in T-Mobile as the Vice-President of Sales to Residential Customers responsible for all sales channels including brand stores, franchises, dealers, distributors, retail networks as well as telesales. His expertise features implementing corporate sales strategy, introducing non-traditional products and, naturally, managing the sales team.



Igor Tóth
Marketing Director

Igor Tóth has rich experience in the area of marketing and he has been working with O$_2$ already since 2008. Recently, he held in O$_2$ the position of the Head of Commercial Marketing Department being responsible for managing marketing activities in the segment of residential as well as business customers. Before this position, his area of responsibility included marketing acquisitions, loyalty, retention and marketing survey. In 2011, he took an internship as a customer experience analyst at the Head Office of Telefónica Europe in London. Before joining O$_2$, he was engaged in the field of marketing survey in T-Mobile. Igor Tóth also acts an external lecturer at the Faculty of Management of the Comenius University. He became the Marketing Director on 1 July 2015.

Ján Vanovčan
Information Systems Director

Ján Vanovčan studied software engineering specialized in artificial intelligence. After holding various IT positions in healthcare, insurance industry and telecommunication operator SW development, since 2000 he held the consulting architect post in Logica. As a consultant, he worked on projects for Slovak operators but also in Hungary, Czech Republic and UK. He joined O$_2$ Slovakia in 2007 as Integration and Architecture Manager to be later promoted to the position of the Head of Department. Ján Vanovčan used to design and manage several projects in O$_2$ Slovakia in the area of CRM, integration of systems and electronic channels.

Company Management

Mária Rapanová
Human Resources Director

Mária Rapanová started her professional carrier as a Human Resources Manager in a private IT company, holding the same position later also in Komerční banka Bratislava. In the next period, she worked as a manager for T-Mobile (originally Eurotel) and Slovak Telekom. From 2005, she managed the Training and Development Department and was responsible for training and development of more than 6,000 employees of the company. She joined O_2 Slovakia in November 2008 and was in charge of training and development and since 2010, she was managing the Human Resources Operative Services Department and represented O_2 in several important Human Resources projects of the European Group of Telefónica, such as creation of the Joint Services Department for employees in Ireland. She became the Human Resources Director on 1 June 2013.

Dávid Durbák
Legal Affairs Director

Dávid Durbák graduated from the Faculty of Law of the Comenius University in Bratislava in 2001. His professional career started in Slovak Telekom, a. s., at the Department for Regulatory Affairs where he spent 4 years and was responsible for providing legal support to the company in proceedings with state authorities, mainly representing the company in several proceedings before the Antimonopoly Office of the Slovak Republic. In the same position, he was also responsible for evaluation of new products of the company. He joined O_2 Slovakia in April 2007 to take the position of a lawyer responsible mainly for legal support of customer relations: He was involved in several important projects such as e.g. the launch of postpaid services. Since April 2011, he has held the position of the Legal Affairs Director, being responsible for overall legal support to the company.

Tomáš Masár
Business Strategy and Development Director

Tomáš Masár studied the Faculty of Management at the Comenius University in Bratislava and investment banking at the Paris Assas II university in Paris. His career started with Citibank London, later Citibank Private Bank in Geneva and ČSOB in Prague. Since 2006, he has worked in the telecommunication business, first in Eurotel CZ and later in Telefónica O_2 CZ where he was dedicated to business development as well as to the project of establishment of the third mobile operator in Slovakia. He stayed in Slovakia to manage the Project Office and strategic projects in O_2 Slovakia. From 2008, he was in charge of product department, marketing, roaming and inter-operator relations (interconnect). Since 1 July 2012, he has been responsible for strategic development of our company and search for new business opportunities.

Juraj Eliáš
Networks Director

Juraj Eliáš joined O_2 from O_2 Business Services, where he held the position of the Technical Director. In 1988, he completed his studies at the Electrotechnical Faculty of the Slovak Technical University in Bratislava. He started his career in telecommunications in the Telecommunications Research Institute in Banská Bystrica, gaining further experience in the field of IT in Agrobanka Prague, Isternet, which was later bought by Euroweb. Since 2002, he was engaged in Nextra and following the acquisition by GTS Slovakia he acted as the Technical Director. His priority is to build a robust, reliable and simultaneously a safe network, which will ensure quality converged mobile and fixed services for the needs of O_2 and O_2 Business Services, i.e. all customers starting with households, smaller business and ending with corporations and state administration.

Supervisory Board Members

The Supervisory Board consists of three members and its role is to, besides other activities, oversee the activities of executive officers, inspect the accounting books and submit at least once a year a report of its activities to the General Assembly.

Martin Štefunko

Chairman of the Supervisory Board of O2 Slovakia, s.r.o., Chairman of the Supervisory Board of O2 Czech Republic a.s

Martin Štefunko holds the PhD. degree in economic theory and history of economic thinking from the University of Economy in Bratislava, where he also took his Master's study in finance, banking and investments. He took his other studies at the Austrian University of Johann Kepler (banking and finance) and in the Mises Institute University Auburn in USA (economic theory). Since 2001, Martin Štefunko worked in Penta Investments and since 2004 in the position of the Investments Director responsible for management of investment projects. In this position, he managed an entire series of significant acquisitions and business projects of the Penta Group in the area of retail, healthcare, energy sector and engineering. Since 2009, he acted as a top management member in the PPF Group, he held the position of the Investment Director. He was a Supervisory Board member of PPF Group N.V., Board member of PPF, a.s., the main consulting company of the PPF Group and also Chairman of the Supervisory Board of the PPF Bank.

Radek Štěrba

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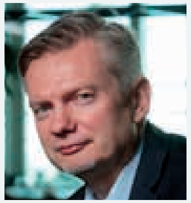


Tomáš Budník

Chief Executive Officer of O2 Czech Republic, acting Head of IT & Demand Management Division

Tomáš Budník graduated from the Faculty of Engineering at the College of Mining at the Technical University of Ostrava. He has been working in the telecommunication industry for more than 20 years – he worked with the companies INEC, Czech Telecom and GTS, where he held various managerial positions in the area of sales, marketing, customer care and regulatory affairs.
In GTS he was in charge of planning, construction, development and operation of the telecommunication network and provision of services to customers. Subsequently, in the position of the CEO he participated in the restructuring of Mobil-Kom, which operated the U:fon network. In 2011, he joined the PPF Group, where he first held the position of an IT Director in Eldorado and in 2013 he headed the project of the fourth mobile operator. Since June 2014, he has been the Chief Executive Officer of O_2 Czech Republic and simultaneously the acting Head of IT & Demand Management Division.

CEO Address

Peter Gažík
Chief Executive Officer of O_2 Slovakia

Dear friends,

we have had another successful year and also our customers, who voted us even this year the Operator of the Year in the independent Techbox survey, see it in the same way. We were growing in all indicators, which given such a saturated and developed market I do not consider a commonplace. In the past year, we focused mainly on making our offer in the area of data more convenient in order to support the emerging trend of an increased use of data services. This was ultimately confirmed also by the figures, when we recorded the best dynamics in revenues from data operations. Towards the year-end, we dedicated ourselves to massive construction and strengthening of our own 4G LTE network and in a record time we reached 70 % coverage of the population from the initial 25 %.

Growth of Financial and Also Operating Results

In 2016, O_2 Slovakia grew in all financial and operating indicators. In the monitored period, the company's revenues increased against last year by nearly 3 % to EUR 251.3 mil.. The greatest dynamic was recorded in revenues from data operations, which hiked by more than 31 %. Positive was also the increase in the number of customers to almost 1.9 mil., whereas the net increase represented 84 thousand SIM cards.

Dominating Investments into Networks

Last year, within our long-term strategy, we continued building and strengthening our network. Throughout 2016, we made the 4G LTE signal available in more than 200 new locations, whereas we concentrated on all district towns and their surroundings and in the interest of increasing customer comfort also on coverage of motorways and speedways. At the end of 2016, we achieved 70 % coverage of the Slovak Republic's population by our own 4G LTE network. Along with building the 4G LTE, we invested also into improvement of quality of our own 2G infrastructure, which increased the customer comfort mainly in the area of voice services. The network investments concerned also the segment of fixed networks, where O_2 announced the plan of building the latest backbone optical network in Slovakia.

Product Innovations Coupled with Values

From the perspective of products, in 2016 O_2 focused on a gradual convenient adjustment of O_2 Paušál plans, but also on new innovative solutions. Besides the product communication, over the year O_2

made itself visible also by several image campaigns. In February, it ran a campaign entitled "Let's Talk More" („Rozprávajme sa viac") with the aim of explaining the significance of verbal communication. The campaign won several awards for creativity and effectiveness as well. The campaign "I Am So Incredibly Fair" („Som nenormálne fér") preceded the establishment of the O_2 Fair Foundation. On the occasion of 17 November, O_2 remembered the price of freedom, when on this day it symbolically "blocked" all foreign web pages with a message reading "Freedom is not commonplace". Within its sponsoring activities, a priority was the support of running and the Olympic champion Matej Tóth.

During last year, the O_2 Fair Foundation launched its activities. In May, it announced a grant program to support employment of the young, starting entrepreneurs or increasing of their asserting or competitiveness and distributed the amount of over EUR 100 thous. for their support.

We would not have been so successful had we satisfied ourselves each year only with the growth of figures. Also therefore, we are pleased that last year we defended the title Operator of the Year in the customer survey Techbox Operator of the Year 2016, namely already for the eighth consecutive time. Similarly also in 2017, we want to implement our plans aspiring not only to shift O_2 as a company but also the entire market a step further. And as usual in O_2, we can promise even now that **#wewillneverstop**.

Calendar of 2016 Significant Events

Calendar of 2016 Significant Events

January

Already for the seventh time, O_2 became the winner of the independent survey "TECHBOX of the Year", in which the readers vote also for the best operator in Slovakia. In January 2017, O_2 confirmed its position also by its eighth win in the survey. Its results confirm that customers appreciate a fair and transparent approach and new ideas in the telecommunication market.

O_2 again shifted the limits of mobile technology possibilities, when in January 2016 it launched the testing of LTE TDD technology at the 3.5 GHz frequency. The first location enabling the use of the 4G technology at the new frequency was the municipality of Zálesie.

February

O_2 brought its customers a new service entitled Device Voucher (Poukážka na zariadenie), which will significantly facilitate the handling of operator's bonuses. Customers will not only be able to join the vouchers in the amount of device bonuses but also give them as a present to another customer to buy their dream telephone or tablet. On the Valentine's Day, O_2 launched a digital activation "Words That Bring Pleasure". On the website www.rozpravajmesaviac.o2.sk, people could record a simple message for their loved ones and O_2 converted the sound wave produced by their voice into a 3D model and printed it out on a 3D printer into the form of a pendant. This campaign was part of the Let's Talk More support campaign determined to endorse the jointly used unlimited calls with the highest O_2 Paušál plans.

March

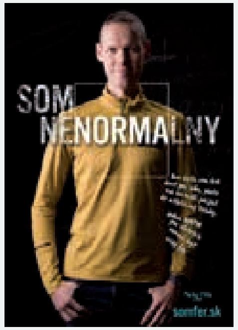
O_2 is not only a company, which has been long-term supporting start-ups, but also actively using them. Since March 2016, customers have the opportunity to use the Staffino application in O_2 brand stores serving to evaluate services. At the same time, O_2 also started using the NiceReply system to evaluate the quality of e-mail communication. The world champion, the current Olympic champion and sportsman of the year Matej Tóth became the ambassador of O_2's running activities for 2016. The "Beh si ty" running portal, with Matej as its face, supports the organizers of running events around all of Slovakia having brought recreational and active runners many events over the entire past year.

April

In early April 2016, O_2 introduced a new service of data packages named Datahit. The service enables the customers to use the unutilized data in the next month, but also to automatically renew the data once the package volume is used up. When transferring data to the next month, their utilization is set up fairly – data transferred from the past month are utilized first and only then the data from the activated package.

May

At the beginning of May, O_2 launched a commercial pilot phase of the national television broadcasting entitled O_2 TV. In this phase, O_2 offered as many as 21 channels for thousand customers from around all of Slovakia. O_2 TV in the version of a home television with a set-top box is covered in three selected municipalities in western Slovakia. O_2 celebrated the arrival of the already millionth postpaid customer. The threshold of one million postpaid customers was broken by Petra J. from Piešťany, who activated the O_2 Fér postpaid plan in an O_2 branch. O_2 decided to reward the millionth postpaid customer with a Golden O_2 Paušál, which she can use the following two years free of charge along with a device as well. The O_2 Fair Foundation as the main partner together with the Equity civic association, under the auspices of the public ombudsman Jana Dubovcová, prepared an awareness competition for the young, which was followed by the campaign We're All But Normal (Všetci sme neNORMALni). Its objective was to open a society-wide discussion to clarify differences between an identical and equal approach. The idea of fairness was supported also by a personal message of the President of the Slovak Republic Andrej Kiska. The O_2 Fair Foundation officially



introduced its grant program at the BarCamp conference in Bratislava's Cervenovka on Saturday 7 May. Anyone whose project supported employment of the young, beginning entrepreneurs/start-ups or increased their competitiveness and assertion could apply for the O_2 Fair Foundation grant.

June

In summer 2016, O_2 was sending free data out to the world by means of promo codes. Customers got the first promo code through the O_2 Extra Výhody application, then also via the geo location. They got the promo codes in freely accessible places near castles, ruins, parks and near lakes or water parks. The customer just came to the determined place and got 100 MB or the whole volume of his/her package for free. O_2 customers can secure their Internet with ESET applications by means of a monthly payment. The application ESET Mobile Security – O_2 Edition makes web browsing via a smartphone or tablet safer. The other application is ESET Parental Control, which allows parents to set up rules for mobile use with their children.

July

O_2 published its plans for building the state-of-the-art national backbone optical network. The company drew closer to fulfilling its plans by acquiring an inter-city optical network from several local providers.

September

O_2 once again brought down the usual barriers. Starting from September, it came with an enhanced offer of O_2 Paušál plans

Calendar of 2016 Significant Events

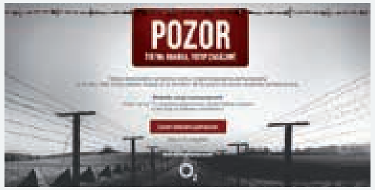
offering more data as well as convenient roaming. Two highest O$_2$ Paušál plans included also unlimited calls in roaming in EU countries. Simultaneously, the operator came also with a Commitment Buy Out service, which means that in O$_2$ the customers will receive a refund on their contractual penalty imposed by a competitor operator up to EUR 150. Within its autumn Commitment Buy Out campaign, O$_2$ prepared also a non-traditional opportunity of discarding unfavourable contracts or unwanted documents by means of an online "discarding machine".

October

In early October, O$_2$ launched phase two of covering Slovakia with its own 4G LTE network. According to the published plans, until the end of the year O$_2$ aimed to cover with the fast Internet two thirds of the Slovak Republic's population with a starting coverage of one fourth of the population.

November

With a special campaign for the 27th anniversary, O$_2$ remembered the message of freedom. All customers who wanted to visit a web page different than a Slovak or Czech one were displayed a special web site evoking the socialist state border. At the



same time, all customers of O$_2$, who travelled abroad on this day, received a notification text message when crossing the border reminding them that in the past this was not commonplace. O$_2$ came with a new offer for customers, who with their postpaid plan wanted to get also a new telephone, tablet or a different device. According to the new rules, customers will not have to limit themselves in the selection at all - for each device they will pay a starting price of only EUR 2. The remaining portion of the price will be distributed into 24 monthly instalments. Along with introduction of this offer, also the name of the service was changed from O$_2$ Mobile into Monthly Device Payment.

December

Towards the end of the year, O$_2$ reached a new goal, 70 % coverage of Slovakia's population with its own 4G LTE network. It exceeded its original plan for this year, which was to achieve 66 %. The level of coverage by 4G LTE network was the result of intense expansion of the signal from September until the end of December 2016. During this period, 231 new locations with 4G LTE coverage emerged. Covering of new locations was accompanied also with the lighting of the most significant monuments in selected towns in the blue colour. Gradually, O$_2$ lit up in blue a total of 25 monuments around Slovakia.

Portfolio

O_2 Paušál

O_2 Paušál is a non-committed plan combining telephone, free volume of data, free SMS and prepaid minutes to all networks in Slovakia and from Slovakia and Czech Republic to the entire EU. With O_2 Paušál, the customers will get the highest handset bonuses in the market in the long run. That is the reason why it is ideal for all customers wanting to purchase a telephone at a more convenient price and simultaneously use the services of O_2 without getting committed. The offer includes five alternatives of O_2 Paušál: Blue, Silver, Gold, Platinum and Diamond. Moreover, customers of the top two O_2 Paušál alternatives can share the benefit of unlimited calls with up to other 4 customers with an activated O_2 Paušál. Customers can use the Platinum and Diamond O_2 Paušál plans also in the EU, since they contain free minutes, SMS and data for the entire EU.

O_2 Fér

O_2 Fér is a revolutionary product that brought the "no commitment" principle to the market and equal prices of calls and SMS messages to all networks and at all times. All this without any regular fees or catches in small print. With O_2 Fér, it does not matter whether customers pay for services by means of an invoice or they recharge their credit. In both cases, they use the plan enjoying the same benefits being able to additionally activate or deactivate various packages of services at more convenient prices according to their needs. They adjust the O_2 Fér offer at any time according to what they will use and how long they decide to use it.

New Services Introduced in 2016

Datahit

The Datahit service enables customers to consume data comfortably and efficiently within monthly packages. In case a customer uses up the basic volume, the new volume will appear automatically and if the volume is unutilized, the data are automatically transferred to the next month.

Commitment Buy Out

With the Commitment Buy Out service in September 2016 O_2 offers a simple transition of customers from the competition also in case of a contractual commitment with a different operator. The customers are provided € 150 to refund a penalty.

Each Device at € 2

O_2 simplified the selection of telephones for customers and eliminated the barrier of the first high payment for a device when it presented an offer of € 2 as the initial payment for each device. It enabled customers to take also better and more valuable smartphones and distribute the remaining amount for the telephone into a regular monthly payment

Pilot Operations of O_2 Home Internet and O_2 TV

In 2016, O_2 launched pilot operations, by which it entered two new segments – home Internet and television, when introducing the services O_2 Home Internet and O_2 TV.

Corporate Responsibility

O$_2$ Fair Foundation Launched Its Activities

We are convinced that together we are able to bring more fairness and improve the environment we live in. Therefore, O2 established the Fair Foundation and in 2016 it could boast the first supported projects. Announcement of the first grant program in May 2016 was preceded by the campaign "I Am So Incredibly Fair". Anyone whose project supported employment of the young, beginning entrepreneurs (and/or start-ups) or increased their competitiveness and assertion could apply for our grant. We received over 120 applications in total. We supported the best 12 of them with the total amount of € 93,000.

What does the Fair Foundation support?

Unemployment Keeps Us Busy:
We fight unemployment of the young and support the beginning entrepreneurs in Slovakia.

Educating the Young:
We support educational programs, requalification courses and possibilities of experience exchange and improvement in the field.

We Know How to Help:
Good ideas need to be spread. We therefore like to share the useful know-how and help organizing meetings with inspiring personalities.

In 2016 we supported these good ideas:

StartupAwards.SK

Each year, it honours entrepreneurial teams that offer innovative services and products. The aim of the project is to identify and support such businesses, which demonstrate the potential to succeed also in the international market. We supported it with the amount of € 25,000.

Startup or Shutdown

One-day conference for starting entrepreneurs with innovative ideas aimed at improvement of their financial management. We supported it with the amount of € 3,000.

Startup Program – The Entrepreneur's Profession

The project's program is aimed at creation of opportunities in exploring and developing business ideas whether it is creation of a new product / service or innovation of an already existing product. We supported it with the amount of € 2,500.

Bašta for Bystrica

The Fair Foundation will also support the project for reconstruction of Bašta near Lazovná Gate in Banská Bystrica, which should restore the dilapidating national monument. We supported it with the amount of € 10,000.

European Inventor Night

The aim of the project is to popularize science and research with the general lay public in an interactive manner. We supported it with the amount of € 7,000.

2016 Student Business Award

The project of the JCI – Slovakia organization

(Junior Chamber International – Slovakia) aspires to show the general public that it is indeed possible to manage building a business already during the university studies. Simultaneously, with its activities it strives to contribute to gradually reduce the number of unemployed young people in Slovakia. We supported it with the amount of € 5,000.

Sokrates Institute – Start for Young Leaders

Accredited supplementary education for elite university students and young people aged up to 32 has the ambitions to educate active, honest, skilled and humble people who will be taking active part in the transformation of Slovakia into a modern and democratic country. We supported it with the amount of € 4,500.

Voices Train21

The project will provide creative space for cooperation and events in Trenčín, where every month it will offer enterprising people from around the region four quality training events with expert consultations. We supported it with the amount of € 8,000.

Kid (Innovative Kid)

A competition educational program aimed at inspiring and supporting the Slovak schools in developing creativity, innovation and implementing entrepreneurial skills into the educating process exclusively through experiential learning. It is determined for pupils of primary grammar schools aged 10 to 14 years. We supported it with the amount of € 10,000.

Start-Up Course

R! course is a development program for enterprising spirit of secondary grammar schools. Its aim is to inspire hundred thousand young people to start their own businesses by 2020 and introduce the program in 250 secondary grammar schools. We supported it with the amount of € 7,000.

... out of the box

The student café project aimed at creating space for meeting of inspiring people. We supported it with the amount of € 8,000.

TEDxYouth@Bratislava

TEDx is a global format conference, which spreads inspiring stories of speakers among people. A group of young volunteers in Bratislava organizes TEDxYouth – for the Young already for the third time in order to inspire secondary grammar school students to fulfil their dreams. We supported it with the amount of € 3,000.

Sponsoring

O_2 Supports Running

O_2 is the oxygen inevitable for life, therefore we support activities bringing a breeze of fresh air, which have true fans. Projects full of energy, enthusiasm and joy of life, events organized by exceptional people thrilled about the right things. Bold people, who will never stop to challenge themselves in order to become better by the day. To us, sponsoring means partnership. We want to supply the supported projects with the necessary oxygen, value added also beyond the financial aid. And naturally to bring benefits also to the most important fans – our customers. Also that is the reason we became partners in running and proudly support one of the best Slovak athletes, the current world champion and the Olympic 50 km race walking champion at the Olympic Games in Rio 2016 Matej Tóth. We also support the Beh SiTy portal, which disposes of one of the largest databases of runners. The announced grant program helped O_2 to support several local running organizations and in form of a partnership assist them in organizing as many as 22 running events throughout the year. At the Devín National Run – Bratislava our brand is represented in the role of a technical partner, it will be a general partner at the O_2 Moon Run (held in Bratislava, Košice and in Zvolen), at the Bratislava's half-marathon and at the runners' festival O_2 Run Fest, at the spectacular mountain run O2 Kordíky Extreme and last but not least at the ever more popular O_2 Banská Bystrica Marathon.

Indepedent auditor´s report and Individual financial statement prepared in accordance with International Financial Reporting Standards as adopted by the European Union as at 31 December 2016 and for the year that ended (Translation)

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Translation of the Auditors' Report originally prepared in Slovak language

Independent Auditors' Report

To the Owner and Directors of O2 Slovakia, s.r.o.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of O2 Slovakia, s.r.o. („the Company"), which comprise the statement of financial position as at 31 December 2016, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section. We are independent of the Company in accordance with the ethical requirements of the Act No. 423/2015 Coll. on statutory audit and on amendments to Act No. 431/2002 Coll. on accounting as amended ("the Act on Statutory Audit") including the Code of Ethics for an Auditor that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Statutory Body for the Financial Statements

Statutory body is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as statutory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, statutory body is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by statutory body.

- Conclude on the appropriateness of statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report on Other Legal and Regulatory Requirements

Reporting on Information in the Annual Report

Statutory body is responsible for the information in the Annual Report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting"). Our opinion on the financial statements, mentioned above, does not cover other information in the Annual Report.

In connection with our audit of the financial statements, our responsibility is to read the Annual Report and, in doing so, consider whether the other information is materially inconsistent with the audited financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

The Annual Report was not available to us as of the date of this auditors' report.

When we obtain the Annual Report, we will consider whether it includes the disclosures required by the Act on Accounting, and, based on the work undertaken in the course of the audit of the financial statements, we will express an opinion as to whether:

- the information given in the Annual Report for the year 2016 is consistent with the financial statements prepared for the same financial year; and

- the Annual Report contains information according to the Act on Accounting.

In addition, we will report whether we have identified any material misstatement in the Annual Report in light of the knowledge and understanding of the accounting entity and its environment that we have acquired during the course of the audit of the financial statements.

30 January 2017
Bratislava, Slovak Republic

Auditing company:
KPMG Slovensko spol. s r.o.
License SKAU No. 96

SKAU
KPMG

Responsible auditor:
Ing. Richard Farkaš, PhD.
License SKAU No. 406

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

in thousands of EUR	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment (net)	8	92 802	72 819
Non-current intangible assets (net)	9	61 938	68 366
Investment in joint venture	6	9	9
Investment in subsidiaries	6	3 028	3 028
Long-term receivables		1 506	203
Deferred tax asset	10	7 425	11 176
TOTAL NON-CURRENT ASSETS		166 708	155 602
Current assets			
Inventories	11	4 013	4 540
Trade receivables and other financial receivables	13	25 761	25 927
Loans provided	14	2 900	22 000
Income tax		1 456	-
Cash and cash equivalents		19 167	4 842
Prepaid expenses		1 719	2 626
TOTAL CURRENT ASSETS		55 016	59 934
TOTAL ASSETS		221 724	215 536
Equity			
Share capital		103 203	103 203
Legal reserve fund and other funds		9 287	7 122
Retained earnings		41 705	43 308
TOTAL EQUITY	15	154 195	153 634
LIABILITIES			
Non-current liabilities			
Other non-current liabilities	16	411	427
TOTAL NON-CURRENT LIABILITIES		411	427
Current liabilities			
Trade payables and other financial liabilities	17	60 518	46 919
Current income tax liability		130	7 680
Deferred revenues	18	6 470	6 877
TOTAL CURRENT LIABILITIES		67 118	61 476
TOTAL LIABILITIES		67 529	61 903
TOTAL EQUITY AND LIABILITIES		221 724	215 536

The notes on pages 33 to 68 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

in thousands of EUR	Note	31 December 2016	31 December 2015
REVENUES	19	251 279	245 314
Costs of goods sold and services provided	20	(142 267)	(138 828)
Depreciation and amortization	8,9	(27 085)	(25 985)
Personnel costs	21	(19 685)	(17 058)
Other expenses	22	(5 760)	(5 563)
OPERATING PROFIT		56 482	57 880
Finance costs	23	(461)	(560)
Finance income	23	205	229
Finance costs (net)		(256)	(331)
PROFIT BEFORE TAX		56 226	57 549
Income tax expense	24	(14 521)	(14 241)
PROFIT AFTER TAX		41 705	43 307
Other comprehensive income for the period		-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		41 705	43 307

The notes on pages 33 to 68 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

in thousands of EUR	Share capital	Legal reserve fund and other funds	Retained earnings from previous periods	Total equity
BALANCE AS AT 1 JANUARY 2015	103 203	5 491	32 624	141 318
Contribution to legal reserve fund	-	1 631	(1 631)	-
Dividends	-	-	(30 993)	(30 993)
Total comprehensive income for the period	-	-	43 308	43 308
BALANCE AS AT 31 DECEMBER 2015	103 203	7 122	43 308	153 634
Contribution to legal reserve fund	-	2 165	(2 165)	-
Dividends	-	-	(41 143)	(41 143)
Total comprehensive income for the period	-	-	41 705	41 705
BALANCE AS AT 31 DECEMBER 2016	103 203	9 287	41 705	154 195

The notes on pages 33 to 68 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

in thousands of EUR	31 December 2016	31 December 2015
Profit/loss from ordinary activities before income tax	56 226	57 549
Cash flows from operating activities		
Depreciation of property, plant and equipment and amortization of intangible assets	27 094	25 901
Change in value adjustment to receivables and write-off of receivables	1 688	1 721
Change in accruals and deferrals	499	1 366
Interest expense	48	-
Gain/loss on sale of non-current assets	9	142
Effect of changes in working capital		
Change in receivables from operations	(5 059)	1 520
Change in payables from operations	6 185	(8 466)
Change in inventories	527	(1 301)
Income tax paid and levy on business in regulated industries	(19 774)	(12 781)
NET CASH FLOWS FROM OPERATING ACTIVITIES	67 396	65 651
Cash flows from investing activities		
Acquisition of property, plant and equipment	(25 492)	(7 403)
Acquisition of non-current intangible assets	(5 593)	(7 113)
Proceeds from sale of property, plant and equipment	57	287
Short-term loans provided to subsidiary	(2 900)	(22 000)
Repayment of short-term loans from the parent company	22 000	8 600
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(11 928)	(27 629)
Cash flows from financing activities		
Dividends paid	(41 143)	(30 993)
Acquisition of non-current financial assets	-	(3 034)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(41 143)	(34 027)
NET INCREASE OF CASH AND CASH EQUIVALENTS	14 325	3 995
Cash and cash equivalents at the beginning of the accounting period	4 842	847
Cash and cash equivalents at the end of the accounting period	19 167	4 842

The notes on pages 33 to 68 are an integral part of these financial statements.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION ABOUT THE COMPANY

REPORTING ENTITY

O2 Slovakia, s.r.o. („the Company“) is a limited liability company established on 18 November 2002. The Company was incorporated into the Commercial Register of the District Court Bratislava, Section s.r.o., file 27882/B on 12 December 2002.

The Company's registered office is in Bratislava, Einsteinova 24, Slovak Republic, registration number 35848863, tax registration number 2020216748.
The Company is part of O2 Czech Republic group („the Group“). The parent company is O2 Czech Republic a.s., Za Brumlovkou 266/2, 140 22 Prague 4 – Michle, the Czech Republic.

The majority shareholder of the parent company in 2016 were companies within PPF Group controlled by Mr. Petr Kellner.

The Company belongs to the leading telecommunication operators in the Slovak market providing phone, data and multimedia services via a public mobile phone network.

The Company is entitled to conduct its business under the brand name O2 for a period of four years till 27 January 2019. The Company is incorporated in the partnership program of the Telefonica Group which enables the partner telecommunication operators to draw economic benefits from the extent of the Telefonica Group and to co-operate in key business areas.

NUMBER OF EMPLOYEES

The number of employees employed by the Company in 2016 amounted in average to 604, in 2015 it was 520 employees.

The number of employees as at 31 December 2016 was 614, thereof 9 managers (as at 31 December 2015 it was 576, thereof 10 managers).

INFORMATION ON UNLIMITED LIABILITY

The Company is not a partner with unlimited liability in other entities according to Article 56 (5) of the Commercial Code.

LEGAL REASON FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared as ordinary financial statements in accordance with Article 17 (6) and Article 17a (2) of the Act No. 431/2002 Coll. on Accounting as amended for the accounting period from1 January 2016 to 31 December 2016.

DATE OF APPROVAL OF THE FINANCIAL STATEMENTS FOR ISSUE

These financial statements have been prepared as at 31 December 2016 and for the year then ended and were prepared and authorized for issue by the Company's statutory representatives on 30 January 2017.

These financial statements can be amended until their approval by the general meeting.

DATE OF APPROVAL OF THE FINANCIAL STATEMENTS FOR THE PRECEDING ACCOUNTING PERIOD

The financial statements of the Company as at 31 December 2015, i.e., for the preceding accounting period, were approved by the Annual General Meeting on 11 March 2016.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

THE COMPANY'S BODIES

EXECUTIVE OFFICERS

Ing. Martin Klimek (from 2 May 2012)

Mgr. Dávid Durbák (from 4 June 2014)

Mgr. Peter Gažík (from 1 June 2015)

SUPERVISORY BOARD

Martin Štefunko (from 1 February 2014)

Tomáš Budník (from 18 June 2014)

Radek Štěrba, MBA (from 1 June 2015)

SHAREHOLDER STRUCTURE

Structure is as follows:

	As at 31 December 2016 (in thousands of EUR)	Share and voting rights (%)	As at 31 December 2015 (in thousands of EUR)	Share and voting rights (%)
O2 Czech Republic, a.s.	103 203	100	103 203	100
Total	103 203	100	103 203	100

INFORMATION ABOUT THE ULTIMATE PARENT

The Company is part of O2 Czech Republic group („the Group“). The parent company is O2 Czech Republic a.s., Za Brumlovkou 266/2, 140 22 Prague 4 - Michie, the Czech Republic.

The majority share (84,06%) of voting rights in parent company in 2016 are held by Mr. Petr Kellner, through companies within PPF Group that is controlled by Mr. Petr Kellner. The PPF Group in 2016 consisted namely of following companies:

- PPF A3 B.V.
- PPF ARENA 2 B.V. (as at 23 January it was demerged into two entities and ceased to exist)
- PPF Telco B.V. (successor entity of PPF Arena 2 B.V., all shares of O2 Czech Republic a.s. originally owned by PPF Arena 2 B.V. were transferred to it as part of the demerger)
- PPF Arena 1 B.V. (on 7 December 2016 a part of the shares of O2 Czech Republic a.s. were transfered to if from PPF Telco B.V.)

The consolidated financial statements are prepared by O2 Czech Republic a.s. The consolidated financial statements are available at the registered office of the parent company and at the City court in Prague, the Czech Republic.

The companies mentioned above belong into PPF Group N.V. The consolidated financial statements of PPF Group N.V. are available at the registered office of the company, at Strawinskylaan 933, 1077 XX Amsterdam, the Netherlands.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS/EU).

3. BASIS OF PREPARATION

The financial statements were prepared using the going concern assumption that the Company will continue its operations for the foreseeable future.

i. Basis of measurement

The financial statements have been prepared on the historical cost basis.

ii. Functional and presentation currency

The Company’s functional currency is euro. The financial statements are presented in the euro and all amounts are presented in thousands of euro, unless otherwise indicated.

iii. Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS/EU requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in the following notes:

- 4. Significant accounting policies: c) Property, plant and equipment- determination of useful life
- 4. Significant accounting policies: b) Non-current intangible assets - determination of useful life

In connection with future activities the Company makes estimates and assumptions. Actual results may differ from those estimated. Information about estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed in note:

Determination of useful life of property, plant and equipment

Economic life, which is referred to in Note 3 (c) and (d) of these notes is determined based on the best estimate of the useful life of property, plant and equipment developed by the Company.

The estimated provision for disposal of the facilities - Assets retirement obligation (ARO)

The company is obliged to remove the base stations and their technical equipment, if they put an end to their use. Provision for removal was determined based on the cost of the removal (for single base), which the company will have to make to meet its commitments to environmental protection in the context of removing the base and putting them in their original condition. The provision is determined on the basis of current costs, which are extrapolated into future years using the best available estimate of dealing with this obligation. The liability is discounted at the risk-free interest rate. This estimate is reviewed annually and the provision is adjusted accordingly, while the value of assets is also adjusted. The company estimates the useful life of their stations ranges from 44 to 88 years. The provision for disposal of the facilities (ARO) was recognized in the amount of EUR 1 550 thousand.

Sensitivity analysis of Assets retirement provision (ARO)

Change in the discount rate by 1 percentage point and change in the costs for removing the base by 10% compared to the original estimates used as at 31 December 2016 would increase or decrease the provision for the dismantling of the facilities (ARO) in the following amounts.

Sensitivity analysis has been estimated based on year-end balances and the actual results of these estimates may vary in the future.

The Company expects that the total costs of dismantling the facilities and putting leased sites to their original condition will be at the end of their useful life in the total amount of EUR 15 035 thousand in future prices.

Future events and their impact cannot be determined with a certainty. Similarly, accounting estimates require review and estimates used for preparation of the financial statements are adjusted when new circumstances arise, or new information and experience is available, or when the business environment in which the Company operates changes. Actual results may differ from those estimated.

Information about estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed in note:

- 13. Current financial receivables – creation of value adjustment to receivables

Receivables are measured at their nominal value decreased by the value adjustment reflecting a reduction in the value of receivables. The amount of value adjustment is estimated based on historical experience and individual assessment.

	31 December 2016	
in thousnad EUR	Increase	Decrease
Discount rate +/- 1.p.	(646)	1 230
Dismantling costs+/- 10 %	155	(155)

4. SIGNIFICANT ACCOUNTING POLICIES

a) Foreign currency

Transactions in foreign currencies are translated to the functional currency (euro) at the foreign exchange rate of the European Central Bank ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the end of reporting period are translated to euro at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognized in profit or loss.

b) Non-current intangible assets

i. Recognition and measurement

Intangible assets acquired by the Company have a finite useful life and are measured at cost less accumulated amortization and any accumulated impairment losses (see accounting policy f)). Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed intangible assets includes cost of materials, direct labor and production overheads.

ii. Subsequent expenditure

Subsequent expenditure is capitalized only when it, increases the future economic benefits embodied in the specific intangible asset to which it relates. All other expenditures, including expenditure on internally generated goodwill and brands, are recognized in profit or loss when incurred.

iii. Amortization

Amortization is calculated from the acquisition cost of the asset. Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of intangible assets.

The estimated useful life, amortization method and amortization rate are set out for individual groups of non current intangible assets, as provided in the table below:

iv. Impairment review

Impairment review of non-current intangible assets is performed in a similar manner as for property, plant and equipment described in the accounting policy c) iv. below.

c) Property, plant and equipment

i. Recognition and measurement

Items of property, plant and equipment are initially measured at cost less accumulated depreciation (see below) and accumulated impairment losses (see accounting policy f)). Cost includes expenditure that is directly attributable to the acquisition of the asset and also the initial estimate of costs related to future dismantle of telecommunication transmitters and bringing of rented locations into original conditions after the end of useful life. The cost of self-constructed assets includes the cost of materials, direct labor and any other costs directly attributable to bringing the assets to a working condition for their intended use.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of

The estimated useful life, amortization method and amortization rate are set out for individual groups of property, plant and equipment as follows:

	Estimated useful life in years	Annual rate of Amortization in %	Amortization method
Software	2 to 7	14,3 to 50	straight-line
Brand	4	25	straight-line
Other valuable rights	2 to 19	5,3 to 50	straight-line
Other intangible assets	4	25	straight-line

Amortization methods and useful lives, as well as residual values, are reassessed at the reporting date and adjusted if appropriate.

property, plant and equipment.Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net in profit or loss.

ii. Subsequent expenditure

The Company recognizes in the carrying amount of an item of property or plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Company and its cost can be measured reliably. Expenditure on repairs or maintenance of property and equipment incurred to restore or maintain future economic benefits expected from the assets is recognized as an expense when incurred.

iii. Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land and assets under construction are not depreciated. In the event of a temporary diminution in the value in use of a non-current tangible asset, an impairment provision equal to the difference between its value in use and net book value is recognized.

iv. Impairment review

Factors considered important, as part of an impairment review, include the following:

- technological advancements;
- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of the Company's use of the acquired assets or the strategy for the Company's overall business;
- obsolescence of products.

When the Company determines that the carrying value of non-current assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, any impairment is measured based on the Company's estimates of projected net discounted cash flows expected to result from that asset, including eventual disposition. The estimated impairment could prove insufficient if the analysis overestimated the cash flows or conditions change in the future. For further details refer to note f) Impairment.

The estimated useful life, depreciation method and depreciation rate are set out for individual groups of property, plant and equipment as follows:

	Estimated useful life in years	Annual rate of depreciation in %	Depreciation method
Buildings	10 to 55	2 to 10	straight-line
Technology and office equipment	2 to 20	5 to 50	straight-line
Other property, plant and equipment	2 to 10	10 to 50	straight-line

Depreciation methods and useful lives, as well as residual values, are reassessed at the reporting date and adjusted if appropriate.

d) Leases

i. Assets leased

(the Company as Lessee)

Assets held by the Company under leases which transfer to the Company substantially all of the risks and rewards of ownership are classified as finance lease. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Company's statement of financial position.

ii. Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

iii. Assets leased

(the Company as Lessor)

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income.

e) Financial instruments

i. Non-derivative financial assets and liabilities - recognition and derecognition

The Company initially recognizes loans and receivables on the date when they are originated. The Company derecognizes a financial asset when contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset.

Non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized costs using the effective interest method.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

ii. Non-derivative financial assets – measurement

The Company classifies financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets, cash and cash equivalents. The classification depends on the purpose for which the financial asset was acquired, whether it is quoted in a public market and/or on the intentions of the Company's management.

From the above mentioned categories the Company only has loans, receivables and cash and cash equivalents in the reported periods.

LOANS AND RECEIVABLES

Loans and receivables represent non-derivative financial assets with fixed or determinable payment dates, not quoted in an active market. These are classified in current assets except for when their maturity is later than 12 months from the reporting date.Loans and receivables are measured at amortized cost. The valuation of doubtful receivables is adjusted to their recoverable value using allowances through profit or loss if there is objective evidence that the Company is not able to collect the total outstanding amount. The amount of the allowance is the difference between the carrying amount and the recoverable amount, expressed as the current value of future cash flows, discounted at the interest rate available to comparable debtors. Cash flows relating to short-term receivables are usually not discounted.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise valuables, cash on hand and in bank, where the risk of a change in value is low and maturity is three months or less. Cash is measured at nominal value.

iii. Non-derivative financial liabilities – measurement

The Company classifies its financial liabilities according to contractual relations bound to them and depending on the purpose which the Company's management concluded a contract with. The Company only has loans, trade payables and other financial liabilities in the reported periods.

The Company's management determines the classification at initial recognition and reassesses it at each reporting date. The initial measurement is at fair value less transaction costs directly attributable to acquisition of a specific financial liability and subsequently stated at amortized carrying amount determined using the effective interest rate method. Profit or loss resulting from financial liabilities is recognized in the statement of profit or loss.

Financial liabilities are classified as short-term if the Company does not have an unconditional right to settle the liability in more than 12 months after the reporting date.

LOANS

Interest-bearing loans are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans are stated at amortized cost with any difference between cost and redemption value being recognized in profit or loss over the period of the loan on an effective interest rate basis.

TRADE AND OTHER PAYABLES

Trade and other payables are recognized initially at fair value. Subsequent to initial recognition they are stated at amortized cost.

f) Impairment

FINANCIAL ASSETS

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.
All impairment losses are recognized in profit or loss and reflected in an allowance account against receivables.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

NON-FINANCIAL ASSETS

The carrying amounts of the Company's non-financial assets, including property, plant and equipment (see accounting policy c) iv), intangible assets (see accounting policy c) iv), inventories (see accounting policy g)) and deferred tax assets (see accounting policy m)) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized.

g) Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Acquisition cost includes the purchase price and related costs (transport costs, customs duty, commissions, etc.). Any discounts and rebates received decrease the cost of inventories.

Slow moving and obsolete inventories are written down for any impairment of value. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write down or loss occurred.

The cost of inventory is based on the weighted average principle.

h) Prepaid expenses and accrued income

Prepaid expenses and accrued income are presented in accordance with the matching principle in terms of substance and time.

The Company recognizes the accrual accounts in accordance with the principle of expenses and revenues in the period to which they belong in terms of substance and time, these are the anticipation and transition accrual items.

Prepaid expenses comprise mainly performance ordered from the Company's suppliers and providers and these relate to future periods in terms of substance and time. Upon delivery of a service these will be recognized in cost of services provided or cost of goods.

i) Accrued expenses and deferred income

Accrued expenses and deferred income are presented in accordance with the matching principle in terms of substance and time. Deferred income includes mainly customer's credit for prepaid services.

j) Provisions

A provision is recognized in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The Company recognizes provision for decommissioning of transmitter stations, provision for untaken holiday and provision for litigations.

k) Revenues

Revenues from own services and goods are stated net of Value Added Tax, discounts and deductions (rebates, bonuses, early payment discounts, credit notes etc.). Revenues are recognized at the date of delivery of goods or provision of services. They are measured at fair value of the consideration received or receivable if this amount can be estimated reliably.

Revenues from services are recognized in the accounting period when rendered in proportion to the stage of completion of the service. The stage of completion is assessed by reference to proportion of services rendered to the overall extent of agreed services.

Depending on the tariff, customers may use a defined extent of telecommunication services during the billing period. The unused extent of services is not transferred to the following periods.

In assessing whether revenues should be recognized gross (i.e. with separate disclosure of costs) or on a net basis, the Company considers the following indicators of gross reporting:

a) the Company is the primary obligor in the arrangement,
b) the Company has general inventory risk,
c) the Company has price latitude,
d) the Company changes the product or provides additional services,
e) the Company has discretion in supplier selection,
f) the Company is involved in the determination of product or service specifications,
g) the Company has credit risk,
h) the Company has the ability to set the terms of the transaction,
i) the Company has the managerial control over the transaction.

The relative weight of each indicator is considered when concluding which revenue accounting treatment to use. If the Company enters into a relation characterized by representation or mediation (agent relationship), the revenue is recognized in its net value, i.e. at the amount of a margin or commission.

The main activity of the Company is sale of telecommunication services to end customers, other operators and sale of mobile phones and accessories.

VOICE SERVICES, SMS AND DATA

Revenues from billed telecommunication services are invoiced to customers on a monthly basis and are recognized in the period of using the service regardless of the date of invoicing. Revenues from prepaid services are recognized in the period of using the service regardless of the date of charging credit.

SALE OF MOBILE PHONES AND ACCESSORIES

Revenues from sale of mobile phones and accessories are recognized at the date of sale to a distributor or end customer. Resulting losses from sale at a discount are recognized at the date of sale to a distributor or end customer.

PREMIUM SMS

Revenues from SMS enabling payment via mobile phones for goods and services provided by third parties, are recognized net in the form of commission for the services provided.

CONNECTION FEES

Revenues from connection fees arise from phone calls started in the network of another domestic or foreign operator, but finished or transferred via the Company's network. These revenues are recognized at the time of accepting such a phone call in the Company's network. The same approach is also applied for SMS and MMS.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

l) Finance costs and finance income

Finance costs and finance income comprise mainly from:

- bank charges,
- interest income, and
- foreign currency gains and losses.

Interest income is recognized in profit or loss as they accrue, using the effective interest method.

Foreign currency gains and losses on financial assets and liabilities are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

m) Income tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

i. Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

ii. Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities, in a specific cases.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

iii. Tax exposures

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes or interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

n) Employee benefits

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognized for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

5. DETERMINATION OF FAIR VALUES

Fair values have been determined for measurement and/ or disclosure purposes based on the following methods:

i. Trade receivables and other financial receivables

The fair value of trade and other financial receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at measurement date. Short-term receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial. Fair value is determined at initial recognition and, for disclosure purposes, at each annual reporting date.

ii. Non-derivative financial liabilities

Non-derivative financial liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each annual reporting date. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the measurement date. Fair values of loans are calculated by discounting future cash flows using effective interbank rates. For received loans with a remaining maturity of less than three months, it is reasonable to regard their book value as approximate fair value.

6. INVESTMENTS

The Company has a 50 % share in the company Tesco Mobile Slovakia, s.r.o. which is joint venture of the Company and Tesco Stores SR, a.s. Share capital of the company is EUR 5 thousand. Financial statements of the company Tesco Mobile Slovakia, s.r.o. for 2016 were not available as at the date of preparation of these financial statements. Profit for 2015 amounted to EUR 7 thousand. Retained earnings from previous years amounted to EUR 66 thousand as at 31 December 2015.

The Company established new company 02 Business Services a.s. on 3 December 2015, in which the Company has 100% share. Share capital of EUR 25 thousand was fully paid, equity is of EUR (37) thousand. The Company records equity investment and capital funds investment in total sum of EUR 3 028 thousand. The Company assessed the potential impairment of investment and reached the conclusion that the investment is not impaired.

In 2014 the Company established foundation ,,Ferova nadacia" at cost of EUR 6.6 thousand.

[1] Programy so stanovenými požitkami po ukončení pracovného pomeru (post-employment defined benefit plans) alebo iné dlhodobé zamestnanecké programy so stanovenými požitkami (other long-term employee benefit plans).

7. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following new standards, amendments to standards and interpretations are not yet effective as at 31 December 2016, and have not been applied in preparing the financial statements:

IFRS 9 FINANCIAL INSTRUMENTS *(Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.)*

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets - amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) - are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the ‚incurred loss' model in IAS 39 with an ‚expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships - fair value, cash flow and foreign operation net investment - remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

The Company does not expect IFRS 9 (2014) to have material impact on the financial statements. The classification and measurement of the Company's financial instruments are not expected to change under IFRS 9 because of the nature of the Company's operations and the types of financial instruments that it holds. However

[1] Programy so stanovenými požitkami po ukončení pracovného pomeru (post-employment defined benefit plans) alebo iné dlhodobé zamestnanecké programy so stanovenými požitkami (other long-term employee benefit plans).

the Company believes that impairment losses are likely to increase and become more volatile for assets in the scope of expected credit loss impairment model. The Company has not yet finalised the impairment methodologies that it will apply under IFRS 9.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS *(Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)*
IFRS 15 has been issued on 28 May 2014 and is effective for the periods beginning on or after 1 January 2018.
The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Management has fully completed its initial assessment of the potential impact of IFRS 15 on the Company's financial statements. It is not expected that the new Standard, when initially applied, will have a significant impact on the financial statements.

IFRS 16 LEASES *(Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.)*
IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.
Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number oflimited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value (‚small-ticket' leases).Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.

This pronouncement is not yet endorsed by the EU. The Company does not expect that the new Standard, when initially applied, will have material impact on the financial statements because the Company is not party to a contractual arrangement that would be in the scope of IFRS 16.

AMENDMENTS TO IFRS 2: CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS *(Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted.)*

[1] Programy so stanovenými požitkami po ukončení pracovného pomeru (post-employment defined benefit plans) alebo iné dlhodobé zamestnanecké programy so stanovenými požitkami (other long-term employee benefit plans).

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

This pronouncement is not yet endorsed by the EU. The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the entity because the Company does not enter into share-based payment transactions.

AMENDMENTS TO IFRS 4: APPLYING IFRS 9 FINANCIAL INSTRUMENTS WITH IFRS 4 INSURANCE CONTRACTS *(Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively.)*
The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4.
The amendments introduce two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers.
The other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.

This pronouncement is not yet endorsed by the EU. The Company, as an insurance provider, intends to apply the exemption from adopting IFRS 9 and therefore does not expect any material impact on the financial statements of the Company.

AMENDMENTS TO IFRS 10 AND IAS 28 SALE OR CONTRIBUTION OF ASSETS BETWEEN AN INVESTOR AND ITS ASSOCIATE OR JOINT VENTURE *(The effective date has not yet been determined by the IASB, however earlier adoption is permitted.)*
The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Entity does not expect that the amendments, when initially applied, will have material impact on the financial statements as the Entity has no subsidiaries, associates or joint ventures.

AMENDMENTS TO IAS 7 (Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Early application is permitted.)
The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

This pronouncement is not yet endorsed

[1] Programy so stanovenými požitkami po ukončení pracovného pomeru (post-employment defined benefit plans) alebo iné dlhodobé zamestnanecké programy so stanovenými požitkami (other long-term employee benefit plans).

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

by the EU. The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company.

AMENDMENTS TO IAS 12: RECOGNITION OF DEFERRED TAX ASSETS FOR UNREALISED LOSSES *Losses (Effective for annual periods beginning on or after 1 January 2017; to be applied prospectively. Early application is permitted.)*
The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.
This pronouncement is not yet endorsed by the EU. The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company because the Company already measures future taxable profit in a manner consistent with the Amendments.

AMENDMENTS TO IAS 40 TRANSFERS OF INVESTMENT PROPERTY *(Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.)*
The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use - i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

This pronouncement is not yet endorsed by the EU. The Company does not expect that the amendments will have a material impact on the financial statements because the Company does not have investment property.

IFRIC 22 FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION *(Effective for annual periods beginning on or after 1 January 2018).*
The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

This pronouncement is not yet endorsed by the EU. The Company does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Company uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

ANNUAL IMPROVEMENTS TO IFRSS
The improvements introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. Most of these amendments are applicable to annual periods beginning on 1 January 2017 or 1 January 2018, with earlier adoption permitted.

The Company expects that none of these amendments will have a significant impact on its financial statements.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

8. PROPERTY, PLANT AND EQUIPMENT

in thousands of EUR	Building	Technologies and office equipment	Other assets	Acquisition of property, plant and equipment	Total
Acquisition cost/Conversion cost					
BALANCE AS AT 1 JANUARY 2015	45 369	90 411	664	8 283	144 727
Additions	376	8 226	-	3 252	11 853
Disposals	-	1 898	158	-	2 055
Transfers	691	816	4	(1 511)	-
BALANCE AS AT 31 DECEMBER 2015	46 437	97 555	510	10 023	154 525
BALANCE AS AT 1 JANUARY 2016	46 437	97 555	510	10 023	154 525
Additions	247	7 598	1	24 954	32 800
Disposals	40	5 508	22	-	5 570
Transfers	370	1 986	-	(2 356)	-
BALANCE AS AT 31 DECEMBER 2016	47 014	101 631	489	32 621	181 755
Accumulated depreciation					
BALANCE AS AT 1 JANUARY 2015	14 122	54 153	422	-	68 698
Additions	2 394	11 455	106	-	13 956
Disposals	-	1 505	121	-	1 627
BALANCE AS AT 31 DECEMBER 2015	16 516	64 103	407	-	81 027
BALANCE AS AT 1 JANUARY 2016	16 516	64 103	407	-	81 027
Additions	2 464	10 243	35	-	12 742
Disposals	19	5 455	21	-	5 495
BALANCE AS AT 31 DECEMBER 2016	18 961	68 891	421	-	88 273

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

in thousands of EUR	Building	Technologies and office equipment	Other assets	Acquisition of property, plant and equipment	Total
Impairment losses					
BALANCE AS AT 1 JANUARY 2015	-	-	-	680	680
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
BALANCE AS AT 31 DECEMBER 2015	-	-	-	680	680
BALANCE AS AT 1 JANUARY 2016	-	-	-	680	680
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
BALANCE AS AT 31 DECEMBER 2016	-	-	-	680	680
Carrying amount					
AS AT 1 JANUARY 2015	31 247	36 257	242	7 603	75 349
AS AT 31 DECEMBER 2015	29 921	33 452	103	9 343	72 819
AS AT 1 JANUARY 2016	29 921	33 452	103	9 343	72 819
AS AT 31 DECEMBER 2016	28 053	32 740	68	31 941	92 802

Property, plant and equipment do not include any separate, individually significant items. The Company does not record any property, plant and equipment which are not utilized, except for property, plant and equipment in acquisition.

The Company does not lease its property, plant and equipment to third parties.

PLEDGED ASSETS

No pledge has been established on property, plant and equipment as at 31 December 2016 (as at 31 December 2015: none).

The Company does not have any restricted rights to property, plant and equipment as at 31 December 2016 (as at 31 December 2015: none).

INSURANCE

The Company’s property, plant and equipment is insured against damages caused by theft and natural disaster up to EUR 143 283 thousand (2015: EUR 159 370 thousand).

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

9. NON-CURRENT INTANGIBLE ASSETS

in thousands of EUR	Licences	Software and valuable rights	Brand	Acquisition of intangibles	Total
Acquisition cost/Conversion cost					
BALANCE AS AT 1 JANUARY 2015	46 147	43 527	19 689	3 243	112 606
Additions	1 776	1 138	-	4 645	7 559
Disposals	-	2	-	-	2
Transfers	1 665	101	-	(1 767)	-
BALANCE AS AT 31 DECEMBER 2015	49 588	44 764	19 689	6 121	120 163
BALANCE AS AT 1 JANUARY 2016	49 588	44 764	19 689	6 121	120 163
Additions	291	2 541	-	5 070	7 902
Disposals	-	1 448	-	-	1 448
Transfers	1 972	2 975	-	(4 947)	-
BALANCE AS AT 31 DECEMBER 2016	51 851	48 832	19 689	6 244	126 617
Accumulated depreciation					
BALANCE AS AT 1 JANUARY 2015	3 651	35 861	394	-	39 905
Additions	3 085	4 082	4 725	-	11 893
Disposals	-	1	-	-	1
BALANCE AS AT 31 DECEMBER 2015	6 736	39 941	5 119	-	51 797
BALANCE AS AT 1 JANUARY 2016	6 736	39 941	5 119	-	51 797
Additions	3 291	6 312	4 726	-	14 329
Disposals	-	1 448	-	-	1 448
BALANCE AS AT 31 DECEMBER 2016	10 027	44 806	9 845	-	64 678

in thousands of EUR	Licences	Software and valuable rights	Brand	Acquisition of intangibles	Total
Carrying amount					
BALANCE AS AT 1 JANUARY 2015	42 496	7 666	19 296	3 243	72 700
BALANCE AS AT 31 DECEMBER 2015	42 852	4 823	14 570	6 121	68 366
BALANCE AS AT 1 JANUARY 2016	42 852	4 823	14 570	6 121	68 366
BALANCE AS AT 31 DECEMBER 2016	41 824	4 026	9 844	6 244	61 938

The Company does not have any non-current intangible assets which are not utilized in meeting its objectives, except for non-current intangible assets in acquisition.

The Company does not lease its non-current intangible assets to third parties.

Non-current intangible assets include a telecommunication license acquired in years 2006, 2014 and 2016, key system and a brand summarized as follows:

in thousands of EUR		31 December 2016	31 December 2015
	Acquisition cost	48 499	46 147
Telecommunication licence	Carrying amount	38 472	39 411
	Acquisition cost	16 363	14 124
CRM system	Carrying amount	2 000	2 021
	Acquisition cost	19 689	19 689
Brand	Carrying amount	9 844	14 570

LIEN

No lien has been established on non-current intangible assets as at 31 December 2016 (as at 31 December 2015: none).

The Company does not have any restricted rights to non-current intangible assets as at 31 December 2016 (as at 31 December 2015: none).

INSURANCE

See note 8 Property, plant and equipment.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

10. DEFERRED TAX ASSET

in thousands of EUR	2016	2015
Deferred tax asset at the beginning of the period	11 176	10 883
Change in statement of profit or loss	(3 751)	293
thereof: effect of a change in tax rate	(353)	-
DEFERRED TAX ASSET AT THE END OF THE PERIOD	7 425	11 176

The deferred tax assets are represented by the following items:

in thousands of EUR	31 December 2016	31 December 2015
Property, plant and equipment and non-current intangible assets	2 674	6 297
Receivables	1 087	1 374
Inventories	11	11
Liabilities	3 478	3 494
Other	175	-
TOTAL DEFERRED TAX ASSET	7 425	11 176
Part realizable in 12 months	6 632	7 510
Part realizable later than in 12 months	793	3 666
TOTAL DEFERRED TAX ASSET	7 425	11 176

The Company has offset deferred tax assets and liabilities because there is a legally enforceable right to offset current tax assets against current tax liabilities, which relate to the same tax authority. Deferred taxes are calculated using currently enacted tax rates expected to apply in the period in which the asset is realized or the liability settled. Tax rate applicable for temporary differences is 21 % (2015: 22 %).

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

11. INVENTORIES

in thousands of EUR	31 December 2016	31 December 2015
Material	576	528
Merchandise	3 437	4 012
TOTAL INVENTORIES	4 013	4 540

The Company recognized a provision for slow moving material and merchandise in total amount of EUR 49 thousand (2015: EUR 49 thousand).

No lien has been established on inventories as at 31 December 2016 (as at 31 December 2015: none).

Material in amount of EUR 1 711 thousand, merchandise in amount of EUR 37 946 thousand was recognized as an expense in 2016 (in 2015: material in amount of EUR 1 866 thousand, merchandise in amount of EUR 36 201 thousand).

12. FINANCIAL INSTRUMENTS ACCORDING TO CATEGORIES

31 December 2016 (in thousands of EUR) Assets according to Statement of financial position	Amortized cost	Nominal value	Total
Trade receivables and other financial receivables	25 761	-	25 761
Loans and borrowings	2 900	-	2 900
Cash and cash equivalents	-	19 167	19 167
	28 661	19 167	47 828

31 December 2016 (in thousands of EUR) Liabilities according to Statement of financial position	Amortized cost	Total
Trade payables and other financial liabilities	60 518	60 518
	60 518	60 518

31 December 2015 (in thousands of EUR) Assets according to Statement of financial position	Amortized cost	Nominal value	Total
Trade receivables and other financial receivables	25 927	-	25 927
Loans and borrowings	22 000	-	22 000
Cash and cash equivalents	-	4 842	4 842
	47 927	4 842	52 769

31 December 2015 (in thousands of EUR) liabilities according to Statement of financial position	Amortized cost	Total
Trade payables and other financial liabilities	46 919	46 919
	46 919	46 919

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

13. TRADE AND OTHER FINANCIAL RECEIVABLES

in thousands of EUR	31 December 2016	31 December 2015
Receivables	33 921	35 248
Impairment provision	(8 160)	(9 321)
NET RECEIVABLES	25 761	25 927

in thousands of EUR	31 December 2016	31 December 2015
Receivables not impaired	12 361	13 824
Receivables impaired	21 560	21 424
TOTAL RECEIVABLES	33 921	35 248

Ageing structure of receivables not impaired:

in thousands of EUR	31 December 2016	31 December 2015
Not past due	9 987	8 329
Overdue less than 180 days	2 040	5 390
Overdue less than 365 days	279	45
Overdue more than 365 days	55	60
TRADE RECEIVABLES NOT IMPAIRED	12 361	13 824

Ageing structure of receivables impaired:

in thousands of EUR	31 December 2016	31 December 2015
Not past due	9 651	7 808
Overdue less than 180 days	4 478	4 510
Overdue less than 365 days	800	1 211
Overdue more than 365 days	6 631	7 895
TOTAL RECEIVABLES IMPAIRED	21 560	21 424

Ageing structure of impairment provision

in thousands of EUR	31 December 2016	31 December 2015
Not past due	382	302
Overdue less than 180 days	575	627
Overdue less than 365 days	628	699
Overdue more than 365 days	6 575	7 693
IMPAIRMENT PROVISION AT THE END OF THE PERIOD	8 160	9 321

Movements in the impairment provision:

in thousands of EUR	31 December 2016	31 December 2015
At the beginning of the period	9 321	10 504
Utilisation	2 328	2 904
Creation in the statement of profit or loss	1 167	1 721
IMPAIRMENT PROVISION AT THE END OF THE PERIOD	8 160	9 321

The Company's experience with receivables collection is reflected in creation of the impairment provision. The Company's management believes that there are no other risks that would impair receivables in excess of created impairment provision.

Receivables of the Company are covered with a combination of bank guarantees, blank promissory notes and received collaterals as summarized below:

in thousands of EUR	31 December 2016	31 December 2015
Combination of bank guarantees and blank promissory note	8 985	8 860
Collaterals received	1 457	1 397
TOTAL SECURED RECEIVABLES	10 442	10 257

Credit risks and currency risks to which the Company is exposed and impairment provisions to trade receivables and other financial receivables are described in note 25.

Receivables are not secured by a lien or any other form of security as at 31 December 2016 (as at 31 December 2015: none).

The Company does not have any restricted rights to receivables.

14. LOANS PROVIDED AND RECEIVED

in thousands of EUR	Interest rate	Maturity	31 December 2016	31 December 2015
Loans provided				
O2 Business Services, a.s.	1M PRIBOR p.a. +0,75 %	31 December 2017	2 900	-
O2 Czech Republic a.s.	1M EURIBOR p.a. +0,22 %	30 June 2016	-	22 000

The Company has loan facilities agreed with parent company and various banks according to the following summary:

in thousands of EUR	31 December 2016	31 December 2015
Slovenská sporiteľňa a.s.	5 000	5 000
Citibank Europe plc, foreign bank branch	2 300	2 300
O2 Czech Republic a.s.	40 000	-
TOTAL AGREED LOAN FACILITY	47 300	7 300

The company provided a credit limit to O2 Business Services subsidiary in the amount of EUR 5 000 thousand.

If the 1M EURIBOR or 1M PRIBOR interest rate will be negative, the companies O2 Slovakia, s.r.o., O2 Czech Republic a.s. and O2 Business Services, a.s. will apply so called "Zero Floor", which means that granted loan is charged interest rate in amount of the agreed margin.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

15. EQUITY

SHARE CAPITAL

Total authorized and issued share capital of the Company amounts to EUR 103 203 thousand as at 31 December 2016 (as at 31 December 2015: EUR 103 203 thousand). The share capital is fully paid up. Shareholder's share represents rights and responsibilities of shareholders.

LEGAL RESERVE FUND

According to the Commercial Code the Company is obliged to create a legal reserve fund in the minimum amount of 5 % of net profit (annually) and up to a maximum of 10 % of share capital. As at 31 December 2016 the balance of legal reserve fund is EUR 9 287 thousand (as at 31 December 2015: EUR 7 122 thousand). In future, contribution in the amount of EUR 1 033 thousand from the Company's profits will be required in order to reach the statutory limit. Distribution of the legal reserve fund can be made for covering of the Company's losses only.

DISTRIBUTION OF ACCOUNTING PROFIT REPORTED IN THE PRECEDING ACCOUNTING PERIOD

The sole shareholder decided on payment of dividend in the amount of EUR 41 143 thousand and on contribution to the legal reserve fund in the amount of 5 % of net profit, i.e. EUR 2 165 thousand. Dividends for 2015 were paid to the sole shareholder on 23 May 2016. The Company generated a profit in the amount of EUR 41 705 thousand for 2016 and the sole shareholder will decide on its distribution.

16. OTHER NON-CURRENT LIABILITIES

OUT OF IT SOCIAL FUND

The social fund liabilities are presented among payables towards employees and moved during the period as follows:

in thousands of EUR	Social fund
BALANCE AS AT 1 JANUARY 2015	88
Creation	67
Drawing	88
Release	-
BALANCE AS AT 31 DECEMBER 2015	67
Creation	78
Drawing	106
Release	-
BALANCE AS AT 31 DECEMBER 2016	39

The social fund is used to satisfy social, health and other needs of employees.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

17. TRADE AND OTHER FINANCIAL LIABILITIES

in thousands of EUR	31 December 2016	31 December 2015
Trade payables	30 306	24 328
Unbilled supplies	24 067	16 260
Tax liabilities (except for income tax)	3 089	3 239
Employees	2 532	2 754
Other	525	338
TOTAL CURRENT LIABILITIES	60 518	46 919

Ageing structure of current liabilities:

in thousands of EUR	31 December 2016	31 December 2015
Not past due	58 928	43 244
Overdue less than 180 days	1 367	3 661
Overdue less than 365 days	159	-
Overdue more than 365 days	64	14
TOTAL CURRENT LIABILITIES	60 518	46 919

The structure of liabilities according to their maturity is presented in note 25, part Liquidity risk.

Trade payables and other financial liabilities are not secured by a lien or any other form of security.

18. DEFERRED REVENUES

Deferred revenues mainly include credit of customers for prepaid services. The credit is valid for 3 or 6 months according to the amount of last charge.

19.REVENUES

in thousands of EUR	2016	2015
Revenue from sale of services	208 889	205 668
Revenue from sale of merchandise	39 877	37 461
Other revenue	2 513	2 184
REVENUE TOTAL	251 279	245 314

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

20. EXTERNAL PURCHASES

in thousands of EUR	2016	2015
Telecommunication services	53 534	50 420
Merchandise sold	37 946	36 201
Dealer commissions	16 268	16 077
Marketing costs	9 106	9 394
Outsourcing of services within the Group and from external suppliers	6 659	8 791
Lease	8 083	7 462
Energy consumption	1 843	2 077
Repairs of property, plant and equipment	1 433	1 640
Other	7 395	6 766
TOTAL EXTERNAL PURCHASES	142 267	138 828

Expenses related to audit of financial statements in the year ended 31 December 2016 amounted to EUR 30 thousand (2015: EUR 30 thousand). KPMG Slovensko, spol. s r.o. was appointed on 11 March 2016 as an independent auditor for the period ended 31 December 2016.

Expenses related to tax advisory provided by the independent auditor were in the year ended 31 December 2016 in the amount of EUR 10 thousand (2015: EUR 10 thousand).

The independent auditor did not provide any other services. These expenses are included in Other external purchases.

21. PERSONNEL COSTS

in thousands of EUR	2016	2015
Wages and salaries	14 614	12 557
Social security	5 071	4 501
TOTAL PERSONNEL COSTS	19 685	17 058

22. OTHER EXPENSES

in thousands of EUR	2016	2015
Fees paid to the Group	946	1 121
Fees to Telecommunication Office for frequencies	2 238	1 888
Creation of impairment provision for receivables	1 167	1 721
Deliberate investment	1 021	-
Other	388	833
TOTAL OTHER EXPENSES	5 760	5 563

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

23. FINANCE INCOME AND FINANCE COSTS

in thousands of EUR	2016	2015
Interest expense	48	-
Exchange rate losses	318	478
Other financial expenses	95	82
TOTAL FINANCIAL EXPENSES	461	560

in thousands of EUR	2016	2015
Interest income	26	1
Exchange rate gains	179	228
TOTAL FINANCIAL INCOME	205	229

24. TAX EXPENSES AND RECONCILIATION OF THE EFFECTIVE TAX RATE

in thousands of EUR	2016	2015
Deferred tax	3 752	(293)
Special levy on business in regulated industries	1 628	1 330
Current tax	9 141	13 204
TOTAL TAX ESPENSES	14 521	14 241

In accordance with Act No. 235/2012 Coll. on Special Levy on Business in Regulated Industries and on Amendments and Supplements to certain laws in the wording of Act No. 440/2012 Coll., the Company considers itself a regulated legal person. Consequently, the Company is obliged to pay a special levy provided that its profit for the accounting period exceeds EUR 3 000 thousand (deductible amount). The levy is determined on the basis of the latest known profit or loss before taxation, after the adjustment for the deductible amount. The levy rate amounts to 0.00363 (Article 6 of Act No. 235/2012 Coll.) paid on a monthly basis.

in thousands of EUR	2016	2015
Profit before tax	56 226	57 549
Theoretical tax of 22%	12 370	12 661
Special levy on business in regulated industries	1 628	1 330
Tax rate change	353	-
Permanent differences	170	250
TOTAL TAX EXPENSES	14 521	14 241

In November 2016 Slovak parliament has amended the Act 595/2003 Coll. on Income tax. One of the changes is a decrease of the statutory income tax rate from 22 % to 21 %.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company is exposed to various financial risks due to its activities. The Company's overall risk management focuses on unpredictability of financial markets and economic environment and pursues to minimize potential adverse impacts on the Company's financial results. Financial instruments include cash, a capital instrument of another accounting entity, any arrangement entitling to gain or binding to provide cash or another financial asset or any arrangement entitling or binding to exchange financial assets and liabilities.The main risks arising from financial instruments used by the Company are market risk, credit risk and liquidity risk. The financial department is responsible for financial risk management based on rules approved by the parent company.

MARKET RISK MANAGEMENT

The market risk represents risk of fluctuations in fair value of future cash flows of a financial instrument due to changes in market prices. The market risk includes currency, interest rate and other price risks.

CURRENCY RISK

The currency risk represents the risk of fluctuations in fair value of future cash flows of a financial instrument due to changes in foreign exchange rates. The Company is exposed to movements in the American Dollar, British Pound and Czech Crown and reserve currency created by the International Monetary Fund XDR (Special Drawing Rights) which represents a minimum risk in connection with the position of these currencies on the total amount of liabilities/assets. Consequently, no sensitivity analysis was performed.

Overview of financial receivables in foreign currencies translated at the foreign exchange rate as at 31 December 2016 to EUR is as follows:

in thousands of EUR	USD	XDR	Total
Not past due	-	245	245
Overdue less than 180 days	(14)	1 543	1 529
Overdue less than 365 days	(1)	81	80
Overdue more than 365 days	-	130	130
TOTAL CURRENT RECEIVABLES	(15)	1 999	1 984

Overview of financial liabilities in foreign currencies translated at the foreign exchange rate as at 31 December 2016 to EUR is as follows:

in thousands of EUR	CZK	USD	XDR	Total
Not past due	187	168	3 379	3 734
Overdue less than 180 days	3	-	721	724
Overdue less than 365 days	-	-	248	248
Overdue more than 365 days	-	-	-	-
TOTAL CURRENT LIABILITIES	190	168	4 348	4 706

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

INTEREST RATE RISK

Revenues, expenses and operating cash flows of the Company are not significantly affected by changes in market interest rates. In March 2012, the Company concluded a loan agreement with the parent company Telefonica Czech Republic, a.s., on provision of a short-term loan. As at 31 December 2016, the outstanding balance of the loan was fully paid up (2015: EUR 22 000 thousand). As of 2 June 2016 the Company entered into an agreement on revolving credit with subsidiary O2 Business Services, a.s. As of 31 December 2016 the balance of drawn credit was EUR 2 900 thousand. The company was granted a credit line in the amount of EUR 5 000 thousand. The Company's management considers the risk of significant fluctuations in the interest rate of this loan as insignificant and therefore, no sensitivity analysis with respect to interest rate changes was performed. The Company's management does not use hedging instruments to manage the risk of variable interest rate.

OTHER PRICE RISKS

Other price risks arise in the case of financial instruments, for example, due to changes in prices of commodities or shares. The Company is exposed to price regulation of roaming fees by the European Union. Changes in prices in 2017 will not have a significant impact on revenues of the Company.

CREDIT RISK

Credit risk represents the risk that one party to a financial instrument causes financial loss to another party by failing to fulfil an obligation. The Company is exposed to credit risk resulting from its operating activities. The Company's rules for credit risk management define maturity and limits for individual partners. The Company decreases the credit risk of partners by using bank guarantees or blank promissory notes. Concentration of credit risk in connection with trade receivables is limited due to the Company's large client base. Additionally, if the client fails to pay the outstanding amount for provided services even after follow-up notices, the Company limits outgoing calls to the client and subsequently the provision of services is interrupted. The Company creates a bad debt provision for receivables due to impairment, which represents an estimate of possible losses from trade and other receivables. The creation covers instances of individually significant credit risk as well as general loss from receivables where the impairment is not assessed on an individual basis. The summary of the ageing structure of short-term receivables is disclosed in Note 13. Receivables which were overdue as at the reporting date without impairment are kept from creditworthy partners with good payment discipline. On the basis of past experience with payment discipline of these contractual partners the Company's management is convinced that no impairment of these receivables is necessary.

LIQUIDITY RISK

The liquidity risk represents risk that the Company will have difficulties in fulfilling obligations relating to financial liabilities which are settled using cash or other financial assets. The Company's rules to decrease liquidity risk define the level of cash, cash equivalents and credit facilities which the Company has at its disposal, so as to be able to fulfil its obligations in time and to full extent.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

The table below shows financial liabilities of the Company, based on undiscounted cash flows taking into account the earliest possible dates when the Company may be required to pay off these liabilities.

in thousands of EUR	31 December 2016	31 December 2015
Without maturity	-	-
Maturity up to 180 days	60 649	54 598
Maturity up to 365 days	-	-
Maturity more than 365 days	411	427
TOTAL LIABILITIES	61 060	55 025

The table below shows information about the Company's expected maturity of non-derivative financial assets. The table was prepared based on undiscounted contractual maturity of financial assets including interest income from these assets.

in thousands of EUR	31 December 2016	31 December 2015
Without maturity	20 673	5 045
Maturity up to 180 days	38 277	60 800
Maturity up to 365 days	-	-
Maturity more than 365 days	-	-
TOTAL RECEIVABLES AND CASH AND CASH EQUIVALENTS	58 950	65 845

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL ASSETS AND LIABILITIES OFFSETTING

The following financial assets were subject to offsetting, master netting agreements and similar agreements enabling offsetting:

v tis. EUR	31 December 2016	31 December 2015
Trade and other receivables prior to offsetting	27 993	29 479
Gross offset amount	(2 232)	(3 552)
TRADE AND OTHER RECEIVABLES AFTER OFFSETTING	25 761	25 927

The following financial liabilities were subject to offsetting, master netting agreements and similar agreements enabling offsetting:

in thousands of EUR	31 December 2016	31 December 2015
Trade and other payables prior to offsetting	62 750	50 471
Gross offset amount	(2 232)	(3 552)
TRADE AND OTHER PAYABLES AFTER OFFSETTING	60 518	46 919

The Company records no financial assets and financial liabilities which would be subject to offsetting agreements and which were not offset in the balance sheet.

CAPITAL RISK MANAGEMENT

The Company is not subject to external capital requirements. The primary objective of the Company's capital management is to ensure support of its business activities and maximize the shareholder value, taking into account guidelines of the parent company. In 2016, no changes were carried out in objectives, principles and procedures. The capital structure of the Company consists of the shareholder's equity which includes share capital, reserve fund and retained earnings from previous periods. The Company's management manages the capital measured with equity of EUR 154 195 thousand as at 31 December 2016 (EUR 153 634 thousand as at 31 December 2015). The Company may adjust the profit share paid to the shareholder or refund part of the capital to the shareholder in order to maintain or adjust the capital structure. The Company ensures capital management in co-operation with the parent company.

FAIR VALUE ESTIMATION

The carrying amount of each class of the Company's financial instruments approximates their fair value. The carrying amount of trade receivables, less provisions for bad and doubtful receivables, the carrying amount of other trade financial payables, loans and borrowings as well as the carrying amount of liabilities approximates their fair value. In the case of short-term receivables and payables the impact on their present value is insignificant.

26. RELATED PARTY TRANSACTIONS

IDENTITY OF RELATED PARTIES

Related parties of the Company are related companies within the group as well as their statutory bodies, directors, executive directors. Parent company is O2 Czech Republic a.s. In 2016 the majority shareholder of the parent company were companies within PPF Group controlled by Mr. Petr Kellner (detail in Note 1, part Information about the ultimate parent). All related party transactions were conducted under normal market conditions. The balances of receivables and payables are not interest bearing, not secured and payments are expected in cash or in form of offsetting. Balances of financial assets are reviewed for impairment as at the reporting date. No value adjustment was recorded due to impairment.

Receivables, payables, expenses and revenues with related parties are disclosed in the following tables:

1. TRANSACTIONS WITH THE PARENT COMPANY

Assets and liabilities from transactions with the parent company are stated in the following overview:

in thousands of EUR	31 December 2016	31 December 2015
Acquired merchandise and property, plant and equipment	4 050	3 838
Trade and other receivables	10 894	9 810
Provided short-term loans	-	22 000
Trade payables	5 715	4 887

The Company realized the following transactions with the parent company:

in thousands of EUR	31 December 2016	31 December 2015
Sales of merchandise and services	291	255
Purchase of services	10 076	10 066
Finance income	48	1

As at 31 December 2016 the Company paid dividends to the parent company for 2015 in the amount of EUR 41 143 thousand.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. TRANSACTIONS WITH SUBSIDIARY

Assets and liabilities from transactions with subsidiary are stated in the following overview:

in thousands of EUR	31 December 2016	31 December 2015
Shares in companies	3 028	3 028
Acquisition of merchandise and property, p!ant and equipment	1 919	-
Trade and other receivables	1 297	-
Provided short-term loans	2 906	-
Trade payables	2 346	-

The Company realized the following transactions with subsidiary:

in thousands of EUR	31 December 2016	31 December 2015
Sales of merchandise and services	866	-
Purchase of services	149	-
Finance income	14	-

3. TRANSACTIONS WITH OTHER RELATED PARTIES

Assets and liabilities from transactions with other related parties within the PPF Group and Tesco Mobile Slovakia, s.r.o. are stated in the following overview:

in thousands of EUR	31 December 2016	31 December 2015
Shares in companies	3	3
Trade and other receivables	3 380	5 207
Trade payables	2 927	2 568

Selected assets and liabilities from transactions with other related parties within the PPF Group and Tesco Mobile Slovakia, s.r.o. are stated in the following overview:

in thousands of EUR	For the period from1 January 2016 to 31 December 2016	For the period from1 January 2015 to 31 December 2015
Sales of merchandise and services	2 698	2 608
Purchase of merchandise and services	13 475	10 968

The list of companies from the PPF Group which the Company realized transactions in the period from January 2015 with, includes the following companies:

Česká telekomunikační infrastruktura a.s., Home Credit Slovakia, a.s.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

27. INFORMATION ON INCOME AND REMUNERATION OF KEY MANAGEMENT MEMBERS

Among key management members, 10 in total (2015: 10) are members of the executive management of the Company.

in thousand EUR	2016	2015
Short-term employee benefits	1 583	1 543
TOTAL	1 583	1 543

28. CONTINGENT LIABILITIES

LITIGATIONS AND CLAIMS

The Company is not a participant in any litigations or claims except for ordinary business litigations. No significant adverse impact of litigations on the Company's financial position, results of operating activities or cash flows is expected.

UNCERTAINTIES IN TAX LEGISLATION

As many areas of the Slovak tax law have not been sufficiently tested in practice, there is some uncertainty as to how the tax authorities would apply them. The extent of this uncertainty cannot be quantified. It will be reduced only if legal precedents or official interpretations are available. Management of the Company is not aware of any circumstances that may give rise to a future material expense in this respect.

OTHER FINANCIAL LIABILITIES

As at 31 December 2016 the Company has contingent financial liabilities in the amount of EUR 364 thousand (31 December 2015: none) which they committed to provide to its customers after all conditions are met.

29. OPERATING LEASE

The Company leases cars, office, retail and technological premises under operating leases, where the terms range from 1 to 30 years, and land and roofs for base stations.
The table below shows the total minimum lease payments resulting from irrevocable operating leases:

in thousand EUR	31 December 2016	31 December 2015
Lease due within one year	5 835	5 011
Lease due from one to five years	14 474	9 902
Lease due over five years	8 061	6 979
TOTAL LEASE	28 370	21 892

The Company has also concluded lease agreements for indefinite periods in addition to those summarized in the table above.

The lease payable from these contracts in the following year is summarized below:

in thousand EUR	31 December 2016	31 December 2015
Lease due within one year	1 042	1 956
TOTAL LEASE	1 042	1 956

Total minimum lease payments under operating leases for land, buildings and equipment presented in 2016 as expense amounted to EUR 7 783 thousand (2015: EUR 6 910 thousand). These lease contracts may include a condition of restoring the leased assets at the end of the lease term. The Company estimates the current value of future costs of liquidation and dismantling, taking into consideration changes in network infrastructure.

30. INVESTMENT AND OTHER COMMITMENTS

in thousand EUR	31 December 2016	31 December 2015
Investment and other commitments contracted but not included in the financial statements yet	2 067	929
TOTAL INVESTMENT AND OTHER COMMITMENTS	2 067	929

These commitments mainly relate to building of a telecommunication network, optical transfer network and exchange of equipment in sales points. By purchase of a license for frequencies in 800 and 1800 MHz bands the Company committed to the Regulatory Authority for Electronic Communications and Postal Services to cover 25 % of the area of the Slovak Republic with LTE signal till the end of 2015, 50 % of the area till the end of 2017 and 70 % of the area till the end of 2018. As at the end of 2016 the Company complied with the condition to cover 50 % of the area till the end of 2017.

31.SUBSEQUENT EVENTS

No events with a material impact on the true and fair presentation of facts subject to the accounting occurred after 31 December 2016.

30 January 2017

Peter Gažík
Chief Executive Officer

Martin Klímek
Chief Financial Officer

KPMG

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Translation of the Appendix to the independent Auditors' Report originally prepared in Slovak language

Appendix to the independent Auditors' Report issued on the Annual Report

pursuant to Article 27 (6) of the Act No. 423/2015 Coll. on statutory audit and on amendments to Act No. 431/2002 Coll. on accounting as amended ("the Act on Statutory Audit")

To the Owners and Directors of O2 Slovakia, s.r.o.:

We have audited the financial statements of O2 Slovakia, s.r.o. ("the Company") as of 31 December 2016 presented in the appendix of the accompanying Annual Report. We have issued an independent auditors' report on the financial statements on 30 January 2017 with the following wording:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of O2 Slovakia, s.r.o. ("the Company"), which comprise the statement of financial position as at 31 December 2016, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to financial statements, including summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section. We are independent of the Company in accordance with the ethical requirements of the Act No. 423/2015 Coll. on statutory audit and on amendments to Act No. 431/2002 Coll. on accounting as amended ("the Act on Statutory Audit") including the Code of Ethics for an Auditor that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

Responsibilities of the Statutory Body for the Financial Statements

The statutory body is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the statutory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the statutory body is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

KPMG

30 January 2017
Bratislava, Slovak Republic

Auditing company:
KPMG Slovensko spol. s r.o.
License SKAU No. 96

Responsible auditor:
Ing. Richard Farkaš, PhD.
License SKAU No. 406

Report on Other Legal and Regulatory Requirements

Reporting on Information in the Annual Report

The statutory body is responsible for the information in the Annual Report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting"). Our opinion on the financial statements does not cover other information in the Annual Report.

In connection with our audit of the financial statements, our responsibility is to read the Annual Report and, in doing so, consider whether the other information is materially inconsistent with the audited financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Annual Report of the Company, we consider whether it includes the disclosures required by the Act on Accounting.

Based on the work undertaken in the course of the audit of the financial statements, in our opinion:

- the information given in the Annual Report for the year 2016 is consistent with the financial statements prepared for the same financial year; and
- the Annual Report contains information according to the Act on Accounting.

In addition to this, in light of the knowledge of the Company and its environment obtained in the course of audit, we are required to report if we have identified material misstatement in the Annual Report that we have obtained prior to the date of this auditors' report. We have nothing to report in this respect.

25 August 2017
Bratislava, Slovak Republic

Slovenská komora audítorov
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